



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 2662 (1922)
October 16, 1992

SUBJECT: Mid-Year Supplement to the 1992 Edition of USPAP

TO: State Directors

PURPOSE INTENDED OUTCOME:

The purpose of this AN is to provide your State Designated Appraisers and Transitional Real Estate Appraisers with a Mid-Year Supplement to the 1992 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP). The update consists of: (1) Advisory Opinion G-5, Assistance in the Preparation of an Appraisal, and (2) Advisory Opinion G-6, "The Review Appraisal Function."

COMPARISON WITH PREVIOUS AN:

There are no previous ANs on this subject.

IMPLEMENTATION RESPONSIBILITIES:

State Directors must reproduce and supply copies of the Mid-Year Supplement to all State Designated Appraisers (GM/GS-1171, GS-301, etc.), and Transitional Real Estate Appraisers used during the transition period. State Directors must also supply these appraisers with the USPAP Standards issued on April 23, 1992, by an unnumbered letter. All State Designated and Transitional Real Estate Appraisers must follow the USPAP general guidelines for all appraisals completed after December 30, 1992. We believe that present FmHA Instructions 422.1 and 1922-C do meet USPAP standards; however, previous year's sale of subject property and limiting conditions with certification statement must be completed for single family housing appraisals. You must provide State Designated and Transitional Real Estate Appraisers the information necessary to be in compliance with USPAP.

Advisory Opinions represent communications from the Appraisal Standards Board (ASB) and does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

EXPIRATION DATE:
February 28, 1993

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1922-A



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Some time in February 1993, FmHA will issue a complete 1993 edition of the USPAP which will include the attached Advisory Opinion additions.

Should you have any questions concerning the AN, Please contact Ronald Thelen on 720-0830 or for Single Family Housing questions contact Ray McCracken on 720-1486.

ANY REVISIONS OR MODIFICATIONS TO THIS AN THAT YOU WISH TO PUBLISH AS A STATE DIRECTIVE MUST BE SUBMITTED AND APPROVED BY THE ASSISTANT ADMINISTRATOR OF FARMER PROGRAMS OR HOUSING BEFORE IT IS RELEASED FOR IMPLEMENTATION IN YOUR STATE. THE ONLY EXCEPTION TO THIS REQUIREMENT IS WHEN THE REVISION OR MODIFICATION IS NECESSARY FOR COMPLIANCE WITH STATE LAW.


LA VERNE AUSMAN
Administrator

 Attachment

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

**1992
EDITION**

**MID-YEAR
SUPPLEMENT**

REPRODUCED WITH PERMISSION.

**ADDITIONAL COPIES OF THE UNIFORM
STANDARDS OF PROFESSIONAL APPRAISAL
PRACTICE ARE AVAILABLE FROM THE
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ADVISORY OPINION G-5

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Assistance in the Preparation of an Appraisal

THE ISSUE:

What is the appropriate level of participation for assistants in the appraisal process? Clients that require a licensed or certified appraiser, along with the agencies and entities responsible for federally-related transactions, are concerned about the extent of participation of non-licensed or uncertified assistants in the appraisal process. The issue is often expressed in terms of whether the assistant can conduct the property inspection alone and perform other parts of the appraisal process, or prepare a full appraisal and appraisal report that only the principal appraiser signs. The primary area of concern is in the field of residential appraising, where the typical ratio of assistants to principal appraisers is relatively high. What guidance can be found in the Uniform Standards of Professional Appraisal Practice (USPAP) on this issue?

ADVICE FROM THE ASB ON THE ISSUE:

While the parties who raised this issue are primarily concerned with the field of residential appraising, the advice applies to all appraising.

Relevant USPAP References

The relevant responsibilities of appraisers with regard to this issue in USPAP are stated in the Conduct section of the ETHICS PROVISION, the COMPETENCY PROVISION, and in Standards Rules 2-3 and 2-5. Advisory Opinion G-2 on Inspection of Subject Property Real Estate offers additional guidance.

Standards Rule 2-5 is the most direct reference in relation to this issue, and requires that any appraiser (including a licensed or certified appraiser) who signs a report prepared by another (including a non-licensed or uncertified assistant) must accept full responsibility for the appraisal and report. The text of this rule is unequivocal and directly addresses the concerns of the parties who raised this issue. The purpose of Standards Rule 2-5 is to prevent a principal appraiser from attempting to avoid full responsibility for an appraisal by using a conditional label on or near the signature line.

Standards Rule 2-3 requires each appraiser signing a report to state whether or not he or she inspected the subject and whether anyone not signing the report provided significant professional assistance. This mandatory disclosure informs and protects the client and other users of the appraisal.

Advisory Opinion G-2 states: "An appraisal report may contain a certification stating that a personal inspection was not made by the appraiser. Simply disclosing this fact, however, does not relieve the appraiser of the responsibility to determine whether adequate information about the subject real estate is available to develop an appraisal that is not meaningless or misleading."

The Conduct section of the ETHICS PROVISION requires an appraiser to avoid any action that could be considered misleading or fraudulent.

Responsibility of Principal Appraisers and Competence of Assistants

The responsibility of the principal for the work of one or more assistants is inherent in most professions. For example, lawyers use associates, paralegals and researchers, but are ultimately responsible for the document presented to the client. Partners in accounting firms often rely on audit assistants and tax preparers, but are ultimately responsible to the client for the audit or tax return.

Advisory Opinion G-5 (continued)

As in other professions, the principal appraiser is responsible for closely supervising the work of assistants, for the training and development of assistants, and for exercising judgment as to the level of work the assistant is capable and competent to perform. The assistant, in turn, uses education, experience and work product performed under the direction of the principal appraiser to achieve licensing, certification, and/or professional designation.

Each assistant will demonstrate proficiency in various aspects of the appraisal process at differing time intervals during his or her professional development. For example, the new assistant with minimal appraisal or related education and experience cannot be allowed to perform any step of the appraisal process alone without the guidance of a principal appraiser or a more experienced assistant. In contrast, an assistant who recently entered the appraisal field, but has previous experience as a builder or real estate salesperson, may possess the knowledge and experience to adequately identify building materials, items of deferred maintenance, and forms of obsolescence. While this assistant may be qualified to complete an inspection of the subject real estate alone, he or she would not be competent to relate the inspection to the valuation approaches and an inspection by the principal appraiser or a more experienced assistant would be required.

As proficiency is demonstrated by an assistant, it is appropriate for the principal appraiser to place greater reliance on the work of that assistant. An assistant who has meaningful appraisal education and extensive work experience may well be competent to inspect the real estate and prepare the appraisal report alone, subject to an appropriate final reconciliation by the principal appraiser who will be signing or co-signing the report. The appropriate final reconciliation should include a discussion of all aspects of the appraisal process between the assistant and the principal appraiser.

If the principal appraiser signs the report alone, the contribution of the assistant must be acknowledged (Standards Rule 2-3) and the specific tasks performed by the assistant should be clearly stated. If both the assistant and principal appraiser co-sign the report, the principal must accept full responsibility for all aspects of the appraisal process as evidenced by the contents of the report (Standards Rule 2-5). In no circumstance is it appropriate for the principal appraiser to merely sign an appraisal report prepared by an assistant.

Examples of Proper Use of Assistants in the Appraisal Process

The following examples illustrate proper use of assistants in the appraisal process:

Assistant Smith has been employed by Expert Valuers, Inc. for six months and is assigned to a team with Principal Appraiser Jones and four other assistants. Smith was required to complete a company orientation program during the first month of employment and has taken and passed course work in appraisal standards and principles. Jones or Assistant Brown, a team leader with two years experience, accompany Smith on all real estate inspections and guide her research and analysis activities daily. Smith completes rough drafts of various sections of the appraisal and rewrites them after consultation with Jones or Brown. Smith is not yet allowed to co-sign appraisal reports by company policy. Jones signs each report as principal appraiser, acknowledges the specific contributions of Smith and/or Brown in the certification (Standards Rule 2-3), and takes full responsibility for the contents of the report (Standards Rule 2-5). If the certification shows that Brown inspected the real estate with Smith and Jones did not, then Jones must disclose that Brown was relied on for and is qualified to perform an inspection of the type of real estate being appraised.

Advisory Opinion G-5 (continued)

Assistant Brown has two years of experience working with Expert Valuers, Inc. and is now a team leader working under Principal Appraiser Jones. Brown did not begin co-signing appraisal reports with Jones until he had successfully completed course work in appraisal standards, principles, and procedures and had demonstrated basic proficiency in most steps of the appraisal process. Until that time, he was always accompanied on real estate inspections by Jones or another senior person in the firm. Brown is now permitted to conduct inspections with less experienced assistants and regularly advises Jones of any unique physical attributes of a subject that may require re-inspection by Jones. Brown conducts all steps of the appraisal process, discusses his findings with Jones, and prepares final drafts of appraisal reports. In addition, he guides three other assistants in portions of the appraisal process when Jones is not available. If Brown co-signs a report with Jones, he also acknowledges the specific contributions of other assistants in the certification (Standards Rule 2-3) and takes full responsibility for the contents of the report (Standards Rule 2-5).

Principal Appraiser Jones is a partner in Expert Valuers, Inc. and is state certified. She has 15 years appraisal experience and is responsible for two, four-person appraisal teams headed by senior assistants. Jones runs the company orientation program for new assistants and conducts weekly team meetings that provide her an opportunity to evaluate the appraisal competence of the assistants working with her. Four of the eight assistants have demonstrated a level of education and understanding of the process that enable them to conduct most steps of an appraisal. Jones allows these four assistants to conduct real estate inspections alone and to co-sign appraisal reports. Detailed interior photographs are required by company policy. Jones examines the photos with assistants when discussing preliminary conclusions and rough drafts of appraisals, and always conducts exterior inspections of the subject real estate at minimum. If unique characteristics are noted in an interior inspection conducted by an assistant, Jones re-inspects the real estate before the appraisal process is completed. Jones discloses the type and extent of her inspection in each report (Standards Rule 2-3), and acknowledges and takes full responsibility for the contributions of assistants (Standards Rules 2-3 and 2-5).

Concluding Comments

The extent of assistance that can be provided in the appraisal process is directly related to the competence of the assistant, and the principal appraiser is responsible for continually evaluating the competence of his or her assistants.

If a client has evidence that a particular appraiser or firm is not taking appropriate responsibility for the actions of assistants, then a complaint to a state appraiser regulatory body or an appraisal organization would be in order. This complaint should be brought against the principal (licensed or certified) appraiser as well as the assistant.

The USPAP require an appraiser to disclose and accept responsibility. The state regulatory procedures established under Title XI of FIRREA and appraisal organization ethics enforcement provide the ultimate recourse when an appraiser abdicates the responsibility required by USPAP.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved for general distribution on May 1, 1992.

Appraisal Standards Board

John J. Leary, Chairman
 Sherwood Darington, Vice Chairman
 Daniel A. Dinote, Jr.
 John L. Gadd
 Ritch LeGrand

ADVISORY OPINION G-8

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: The Review Appraisal Function

THE ISSUE:

Standard 3 of USPAP states: "In reviewing an appraisal and reporting the results of that review, an appraiser must form an opinion as to the adequacy and appropriateness of the report being reviewed and must clearly disclose the nature of the review process undertaken." How does a review appraisal prepared by an appraiser in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) differ from other types of appraisal reviews?

ADVICE FROM THE ASB ON THE ISSUE:

The ASB makes a distinction between the terms technical review and administrative review. A technical review is work performed by an appraiser in accordance with Standard 3 for the purpose of "...forming an opinion as to whether the analyses, opinions, and conclusions in the report under review are appropriate and reasonable..." [Standards Rule 3-1 (f)]. An administrative review is work performed by clients and users of appraisal services as a due diligence function in the context of making a business decision (underwriting, buy/sell, etc.). While the outline provided by Standard 3 may be helpful to these parties, they are not bound to observe Standard 3 as is the appraiser.

Technical Review by an Appraiser Under Standard 3

Two issues separate the technical review appraisal performed in accordance with Standard 3 from administrative review. One is the ability under Standards Rule 3-1 (f) to express a different estimate of value from that in the report under review (see Statement on Appraisal Standards No. 1). The other is the certification required by Standards Rule 3-2 (e). Clients and users of appraisals performing administrative reviews are not required to certify, but the appraiser performing a technical review appraisal must.

The Comment on Standard 3 is explicit about the role of the appraiser in performing a review appraisal and about the responsibility of the appraiser to distinguish between the appraisal, review, and consulting functions that comprise appraisal practice as defined in USPAP.

Appraisers are required to follow Standard 3 in performing the review appraisal function, and are subject to the ETHICS PROVISION, the COMPETENCY PROVISION, and all other applicable sections of USPAP. Individuals training to be an appraiser that assist in performing review appraisals must follow Standard 3 to ensure that their work product is consistent with USPAP as they seek appraisal experience. The ASB also realizes that some individuals performed review appraisal work substantially consistent with the intent of Standard 3 prior to the existence of Standard 3.

Administrative Review by Clients and Users of Appraisals

The administrative review is performed by a variety of individuals, including lawyers, accountants, loan underwriters, bank examiners, and corporate decision-makers. The intent of these individuals is to consider the information in the appraisal along with other information as part of the basis for a business decision.

This type of individual does not have to be a lawyer or accountant in order to consider the advice of these professionals in making a decision. The same analogy applies in that the individual performing an administrative review does not have to be an appraiser to consider the information in an appraisal.

Advisory Opinion G-6 (continued)

The clear distinction is that the administrative review is being used in the context of a broader business decision. The individual performing the administrative review may not necessarily have the competence or information sources to perform an appraisal. After completing the administrative review, this individual is in a position to understand the strengths and weaknesses of the information leading to the value estimate in the report under review. With this and related information, the individual would be in a position to make decisions on issues such as: whether or not to pursue litigation; what book value to establish for an asset; whether to apply conservative or aggressive underwriting guidelines; whether to make or accept an offer to purchase; etc.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved for general distribution on June 2, 1992.

Appraisal Standards Board

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